

Compliance Section

This section contains various schedules as required by the *U. S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and other state agencies. It also contains the Independent Auditors' reports on compliance and controls as required by the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, and the North Carolina State Single Audit Implementation Act.

City of Asheville

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2006

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	State Expenditures	Total Expenditures
Federal Awards					
<u>U.S. Department of Transportation</u>					
Direct Programs:					
Federal Transit Administration					
Capital and Operating Grants	20.507		\$ 1,112,306	\$ -	\$ 1,112,306
Passed through NC Department of Transportation					
Planning Grant	20.205	Section 104(f) title 23 8.53302	46,713	-	46,713
Total U. S. Department of Transportation			<u>1,159,019</u>	<u>-</u>	<u>1,159,019</u>
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
Community Development Block Grant Program/Entitlement Grants	14.218	B-02-MC-370001	1,130,291	-	1,130,291
Fair Housing Assistance Program--					
FHAP	14.401	FF204K044018	103,641	-	103,641
HOME Program	14.239	M-02-DC-370201	1,619,857	-	1,619,857
Outstanding Section 108 loan balances	14.221		1,194,160	-	1,194,160
Total U.S. Department of Housing and Urban Development			<u>4,047,949</u>	<u>-</u>	<u>4,047,949</u>
<u>U. S. Department of Agriculture</u>					
Passed through NC Dept of Health & Human Services- Div of Maternal & Child Health, After School Program Food Service	10.559	7197	<u>13,547</u>	<u>-</u>	<u>13,547</u>
Total U.S Department of Agriculture			<u>13,547</u>	<u>-</u>	<u>13,547</u>
<u>U. S. Department of Justice</u>					
Direct Programs:					
Local Law Enforcement Block Grant	16.592	2003LBBX1866	39,765	-	39,765
COPS Technology Grant	16.710		1,973,286	-	1,973,286
Justice Assistant Grant - BJA	16.738	DJBX0508	99,967	-	99,967
Bulletproof Vest Program	16.607		7,023	-	7,023
COPS 2002	16.710	2002SHWX0388	34,246	-	34,246
Total U. S. Department of Justice			<u>2,154,287</u>	<u>-</u>	<u>2,154,287</u>
<u>U.S. National Highway Traffic Safety Administration</u>					
Passed through NC Dept. of Transportation:					
Governor's Highway Safety Program	20.600	157(b)2-05-14-g	6,155	-	6,155
Total U.S. National Highway Traffic Safety Administration			<u>6,155</u>	<u>-</u>	<u>6,155</u>
<u>U. S. Department of Homeland Security</u>					
Direct Programs:					
Assistance to Firefighters Grant	97.044	2005-62-036RE	98,443	-	98,443
Passed through NC Emergency Management:					
Public Assistance Grant	97.036		<u>395,119</u>	<u>-</u>	<u>395,119</u>
Total U.S. Department of Homeland Security			<u>493,562</u>	<u>-</u>	<u>493,562</u>

(continued)

City of Asheville

Schedule of Expenditures of Federal and State Awards

For the Year Ended June30, 2005

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	State Expenditures	Total Expenditures
State Awards					
<u>N. C. Department of Transportation</u>					
Direct Programs:					
Powell Bill			-	2,326,644	2,326,644
Community Transportation		99052127	-	247,955	247,955
State Maintenance Assistance Program		SMAP	-	723,847	723,847
Planning Grant		PL104	-	238,878	238,878
Tier 1 Technology Funding			-	84,365	84,365
Transportation Demand Management			-	22,343	22,343
NC DOT			-	49,902	49,902
Total N.C. Department of Transportation			-	3,693,934	3,693,934
<u>N. C. Department of Health and Human Services</u>					
Direct Programs:					
Senior Center Gen'l Purpose Funding- Div. on Aging			-	23,653	23,653
Total N.C. Department of Health and Human Services			-	23,653	23,653
<u>N.C. Community Development Initiative</u>					
Direct Programs:					
NC Community Development Initiative			-	49,050	49,050
Total N.C. Community Development Initiative			-	49,050	49,050
<u>N.C. Dept of Cultural Resources; NC Arts Council</u>					
Direct Programs:					
State Historic Preservation Office- Division of Archives and History			-	2,000	2,000
Total NC Dept of Cultural Resources			-	2,000	2,000
<u>N. C. Department of Environment and Natural Resources</u>					
Direct Programs:					
Alternative Fuels Station		EA05027	-	12,000	12,000
Mobile Source Emissions Grant		EA04010	-	400,000	400,000
High Unit Cost Grant - DEH0930		DEH0930	-	94,847	94,847
Total N.C. Department of Environment, and Natural Resources			-	506,847	506,847
Total Federal and State Awards Expended			<u>\$ 7,874,519</u>	<u>\$ 4,275,484</u>	<u>\$ 12,150,003</u>

CITY OF ASHEVILLE

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2006

NOTES TO THE PRECEDING SCHEDULE:

1 . **Significant Accounting Policies**

The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the City of Asheville and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

2 . **Federal and State Awards Which Have Been Passed Through to Subrecipients**

<u>Subrecipient</u>	<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Tenant-Based Rental Assistance	HOME Investment Partnerships	14.239	\$ 56,183
WNC Housing - Independence Cottages	HOME Investment Partnerships	14.239	36,275
NCR M/F Rehab - Vanderbilt Apartments	HOME Investment Partnerships	14.239	250,000
Asheville Area Habitat S/F New Const	HOME Investment Partnerships	14.239	102,338
NHS Single- Family New Construction	HOME Investment Partnerships	14.239	175,000
MHO S/F New Construction Buncombe Co	HOME Investment Partnerships	15.239	79,000
Buncombe Co. - Our Next Generation	HOME Investment Partnerships	14.239	26,600
Buncombe Co. - First Step Farm	HOME Investment Partnerships	14.239	15,367
HAC - Mainstay Manor	HOME Investment Partnerships	14.239	22,865
HAC - Highland View Apartments	HOME Investment Partnerships	14.239	180,329
HAC - Homeownership Assistance	HOME Investment Partnerships	14.239	45,794
Henderson Co. Habitat - Shuey Knolls	HOME Investment Partnerships	14.239	102,656
Henderson Co. Habitat - Highlander	HOME Investment Partnerships	14.239	52,516
WCCA - English Hills Apartments	HOME Investment Partnerships	14.239	199,000
American Dream Downpayment Assistance	HOME Investment Partnerships	14.239	116,700
General Program Admin	HOME Investment Partnerships	14.239	120,524
Member Government Administration	HOME Investment Partnerships	14.239	28,166
CHDO operating expenses	HOME Investment Partnerships	14.239	67,531
Total			<u>\$ 1,676,844</u>

See the accompanying Independent Auditors' Report .

CITY OF ASHEVILLE
Schedule of Revenues and Expenditures—High Unit Cost Grant—
Project Number DEH0930

From Inception and the Year Ended June 30, 2006

	<u>Prior Years</u>	<u>Current Year</u>	<u>Project to Date</u>
Sources of Funds:			
MSD Reimbursement	\$ 2,200		\$ 2,200
State Funds	2,175,296	94,847	2,270,143
Total Revenues	<u>\$ 2,177,496</u>	<u>\$ 94,847</u>	<u>\$ 2,272,343</u>
Construction Cost:			
WC0201	\$ 583,484	\$ -	\$ 583,484
WC0202	613,090	-	613,090
WC0203	623,259	-	623,259
Administrative Expense:			
Professional Services	435,418	-	435,418
Advertising	819	243	1,062
Legal Fees	13,045	-	13,045
Engineering Fees	1,030	2,266	3,296
License, Taxes & Fees	96	-	96
Other			
Right of Ways	4,100	-	4,100
Total Expenditures	<u>\$ 2,274,341</u>	<u>\$ 2,509</u>	<u>\$ 2,276,850</u>

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

City of Asheville
Asheville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Asheville, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 27, 2006. We did not audit the financial statements of the City of Asheville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Asheville ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Asheville ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Asheville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

We noted certain operational matters that we have reported to management in a separate letter dated October 27, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the governing board, management, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 27, 2006

Dixon Hughes PLLC

Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

City of Asheville
Asheville, North Carolina

Compliance

We have audited the compliance of the City of Asheville, North Carolina (the “City”), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2006. The City’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control over compliance that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We noted certain operational matters that we have reported to management in a separate letter dated October 27, 2006.

This report is intended for the information and use of the governing board, management, and federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

October 27, 2006

Dixon Hughes PLLC

**Report on Compliance with Requirements Applicable to Each Major State
Program and Internal Control over Compliance in Accordance with
Applicable Sections of OMB Circular A-133
and the State Single Audit Implementation Act**

City of Asheville
Asheville, North Carolina

Compliance

We have audited the compliance of the City of Asheville, North Carolina (the “City”), with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2006. The City’s major State programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control over compliance that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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October 27, 2006

Dixon Hughes PLLC

CITY OF ASHEVILLE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Section I--Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes _____ X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes _____ X none reported

Non-compliance material to financial statements noted? _____ yes _____ X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes _____ X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes _____ X none reported

Type of auditors' report issued on compliance for major federal programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes _____ X no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Program
16.710	COPS Technology Grant

(continued)

CITY OF ASHEVILLE

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2006

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

State Awards

Internal control over major State programs:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified that
are not considered to be material
weaknesses? yes X none reported

Any audit findings disclosed that are required
to be reported in accordance with the
State Single Audit Implementation Act? yes X no

Type of auditors' report issued on compliance for major State programs: unqualified

Identification of major State programs:

Program Name

Powell Bill
Mobile Source Emissions Grant

Section II--Financial Statement Findings

There were none.

Section III--Federal Award Findings and Questioned Costs

There were none.

Section IV--State Award Findings and Questioned Costs

There were none.

CITY OF ASHEVILLE

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2006

There were no findings or questioned costs for the years ended June 30, 2004 and 2005.